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SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69570; File No. SR-C2-2013-020)

May 14, 2013

Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Fees Schedule

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on May 01, 2013, C2 Options Exchange, Incorporated (the “Exchange” or “C2”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend its Fees Schedule. The text of the proposed rule change is available on the Exchange’s website (<http://www.c2exchange.com/Legal/>), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend its Fees Schedule. First, the Exchange proposes to make changes to its fees for orders in all multiply-listed index and ETF options classes. Currently, the Exchange offers a rebate for Public Customer complex orders, including those that trade against simple (non-complex) orders (excluding trades on the open, for which no fees are assessed or rebates given). However, the Exchange also offers a rebate for all Maker simple orders (excluding trades on the open, for which no fees are assessed or rebates given). Therefore, in circumstances when a Public Customer complex order trades against a simple Maker order, the Exchange pays a rebate to both market participants and takes in no fees. The Exchange has determined that this is not economically viable. Therefore, the Exchange proposes to add a note that applies to the listing of all Maker rebates in Section 1A of the Fees Schedule (which discusses fees for simple, non-complex orders in all multiply-listed index and ETF options classes) that states "Rebates do not apply to orders that trade with Public Customer complex orders. In such a circumstance, there will be no fee or rebate." The Exchange also proposes to amend the note that already applies to the listing of all Public Customer rebates in Section 1D [sic]<sup>3</sup> of the Fees Schedule (which discusses fees for complex orders in all multiply-listed index and ETF options classes). This note currently states that the rebate for Public Customer complex orders does not apply to Public Customer orders that trade with other Public Customer orders. In such a circumstance, there will be no Maker or Taker fee or rebate. The Exchange proposes to amend this note to state that the rebate (for Public Customer complex orders) will only apply to Public

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<sup>3</sup> The Commission notes that the proposed change modifies section 1C of the Fees Schedule, not 1D.

Customer complex orders that trade with non-Public Customer complex orders. In other circumstances, there will be no Maker or Taker fee or rebate. This simple language achieves the goal of excepting out Public Customer complex orders that trade with simple orders from receiving the rebate (as well as excepting out Public Customer complex orders that trade with other Public Customer complex orders, which were already excepted out of receiving the rebate), and states that such orders will be assessed no fee or rebate.

The Exchange also proposes to amend fees for simple, non-complex orders in equity options classes. The maximum fees for such orders are \$0.85 (\$0.085 mini-options) and the maximum rebates for such orders are \$0.75 (\$0.075 for mini-options).<sup>4</sup> Feedback received from C2 market participants has made it clear to the Exchange that in the BAC, MBI, BBRY, DELL and JCP equity options classes (the “Unique Classes”), the economics of a fee/rebate structure that has a maximum fee of \$0.85 per contract and a maximum rebate of \$0.75 per contract is disproportionate to pricing and does not encourage trading. As such, the Exchange proposes to amend its Fees Schedule to state that the maximum fee for the Unique Classes will be \$0.55 per contract and the maximum rebate for the Unique Classes will be \$0.45 per contract (mini-options are not traded on the Unique Classes). This maintains the \$0.10 difference between the maximum fee and rebate (as currently exists).

The Exchange also proposes to amend its Fees Schedule to make a number of technical changes. First, the Exchange proposes to remove all references in the Fees Schedule to SPXPM, a product which is no longer traded on C2. Therefore, Section 1E of the current Fees Schedule, which listed the rates for SPXPM executions, is no longer relevant, and therefore the Exchange proposes to delete it. Section 1F – Index License Surcharge Fees – can also be deleted, as the

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<sup>4</sup> All fee amounts referenced are per-contract.

only Index License Surcharge Fee listed was that for SPXPM. References to the SPXPM Tier Appointment Fee in Section 3 will also be deleted.

The Exchange also proposes to delete references to past dates from its Fees Schedule. Section 1B describes how fees for simple, non-complex orders in equity options classes will be calculated, effective February 1, 2013. Since that date has passed, the Exchange proposes to delete such reference. Similarly, Section 8E lists the Options Regulatory Fee (“ORF”) as being \$.0015 per contract through December 31, 2012 and \$.002 per contract effective January 2, 2013. As January 2, 2013 has passed, the Exchange proposes to delete the reference to the previous fee and merely state that the ORF will be \$.002 per contract.

Finally, the Exchange proposes to clearly state that the fees in Sections 1A and 1C that apply to multiply-listed index and ETF options classes also apply to multiply-listed ETN options classes. This was not previously explicitly-stated on the Fees Schedule.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>5</sup> Specifically, the Exchange believes the proposed rule change is consistent with Section 6(b)(4) of the Act,<sup>6</sup> which requires that Exchange rules provide for the equitable allocation of reasonable dues, fees, and other charges among its Trading Permit Holders and other persons using its facilities. The proposed changes to the rebates offered for multiply-listed index and ETF options are reasonable because, while in the circumstances discussed, market participants will no longer be receiving a rebate, they still will not be paying a fee for such transactions. Further, it is not economically viable for the Exchange to be paying out

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<sup>5</sup> 15 U.S.C. 78f(b).

<sup>6</sup> 15 U.S.C. 78f(b)(4).

rebates in transactions in which the Exchange does not collect a fee (especially to be paying out rebates on both sides of such transactions). This change is equitable and not unfairly discriminatory because it will apply to all market participants who had previously been receiving rebates for such transactions, and they will all now simply not be assessed a fee (or provided a rebate) in those circumstances.

The Exchange believes that the proposed change to the maximum fee and rebate amounts for the Unique Classes is reasonable because the maximum amounts of both fees and rebates will be lower than it currently is. Further, the maximum fee amount is reasonable because, among other things, the fee will not always be assessed for the maximum amount. The fee will only be for the maximum amount when the BBO Market Width is wide. Otherwise, the fee will be smaller. Indeed, the purpose of the fees structure is to encourage tighter quoting by linking lower fees to such tighter quoting. It is necessary to maintain a spread between the maximum fee and the maximum rebate because, in the event that the maximum fee and rebate both apply, the \$0.10 per-contract difference will allow the Exchange to maintain a minimum level of profit potential. Rebate amounts are often generally lower than fee amounts on the Exchange, as well as on other exchanges,<sup>7</sup> for this reason (among others). The Exchange believes that it is equitable and not unfairly discriminatory to offer different maximum fees and rebates for simple, non-complex orders in the Unique Classes than for other equity options classes because the economics of the Unique Classes are such that the proposed maximum fee and rebates for the Unique Classes are more relevant and will encourage greater trading in those classes. Further, the spread between the maximum fee and rebate for the Unique Classes and for other equity options classes will be the same (\$0.10 per contract). Finally, the

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<sup>7</sup> See current C2 Fees Schedule, Section 1, and NOM Chapter XV (Options Pricing), Section 2.

proposed maximum fee and rebate amounts for the Unique Classes apply to all market participants in the same manner that the current maximum fee and rebate amounts do.

The Exchange believes that making changes to remove references to SPXPM and past dates, and to add the references to ETN options, is consistent with the Section 6(b)(5)<sup>8</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Removing obsolete and irrelevant references and sections from the Fees Schedule and improving the references to ETN options prevents possible investor confusion, thereby removing impediments to and perfecting the mechanism of a free and open market and a national market system, and, in general, protecting investors and the public interest.

B. Self-Regulatory Organization's Statement on Burden on Competition

C2 does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that the proposed changes to the rebates offered for multiply-listed index and ETF options will impose any unnecessary or inappropriate burden on intramarket competition because the changes will apply to all market participants who had previously been receiving rebates for such transactions, and they will all now simply not be assessed a fee (or provided a rebate) in those circumstances. The Exchange does not believe that the proposed changes to the maximum fee and rebate amounts for the Unique Classes will impose any unnecessary or inappropriate

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<sup>8</sup> 15 U.S.C. 78f(b)(5).

burden on intramarket competition because they will apply to all market participants in the same manner that the current maximum fee and rebate amounts do. The Exchange does not believe that the proposed changes will impose any unnecessary or inappropriate burden on intermarket competition because they apply only to trading on C2, and because these changes lower rebates that had previously been provided. To the extent that these changes make C2 a more attractive trading venue for market participants on other exchanges, such market participants may always elect to become market participants at C2.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange neither solicited nor received comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>9</sup> and paragraph (f) of Rule 19b-4<sup>10</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

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<sup>9</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>10</sup> 17 CFR 240.19b-4(f).

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-C2-2013-020 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-C2-2013-020. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer



to File Number SR-C2-2013-020, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>11</sup>

Kevin M. O'Neill  
Deputy Secretary

[FR Doc. 2013-11899 Filed 05/17/2013 at 8:45 am; Publication Date: 05/20/2013]

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<sup>11</sup> 17 CFR 200.30-3(a)(12).